

**Community Development Authority
MCRF Loan Analysis**

Applicant:	TomoTherapy, Inc.
Project:	\$13 million expansion, including construction of a 65,000 square foot manufacturing facility at 1209-25 Deming Way. Construction of two (2) Hi-Art radiation therapy units for demonstration and training purposes.
Funding Source:	Madison Capital Revolving Fund (MCRF)
Funding Request:	\$700,000 end-loan funded at project completion.
Other Assistance:	\$300,000 loan from Madison Development Corp.
Terms:	5-year note, 10-year amortization. 4% fixed interest.
Security:	First lien on two (2) Hi-Art radiation therapy machines, second GBSA on receivables and inventory. MDC's \$300,000 loan will subordinate to the City's security interest.
Contingencies:	Evidence of lease of not less than 10 years on property located at 1240 and 1209-25 Deming Way.
Jobs Retained:	300
Jobs Created:	50

Observations:

- 1. Sales Growth** –The company's primary product is the Hi-Art system—a high technology radiation therapy device used in the medical-biotech industry for cancer treatment. The HI-Art sells on average for about \$2.5 million per unit. Each sales contract includes a service warranty contract that is another source of revenue. Sales have increased dramatically in each of the last three years, from approximately \$12 million in 2003 to over \$50 million as of August 2005.
- 2. Efficiency** – Production and delivery requires highly trained, highly paid professionals to design, construct, install, test and service each product delivered. Subsequently, increased sales have required dramatic increases in hiring, such that operating expense in more than doubled the 2003 figure. In that period total full-time employment increased from 140 to 258 jobs.

The operating cycle, at 270+ days on average, is significantly longer than is typical for a company of this size. The time required to deliver, install, test and train medical personnel on-site on the use of the device factors into this longer operating cycle. However, the capital structure, including a significant working capital line with M&I Bank, is currently sufficient to cover current obligations during that time.

- 3. Retained Earnings** – The company has accumulated losses in two of the last three years audited and has a zero tax liability carried forward. Losses have decreased in each of the last three years' analyzed, indicating a positive growth pattern. Losses are primarily due to high R&D costs and new hires required to keep up with increased demand.
- 4. Capital Structure** – Company shows a strong venture capital investor commitment. Currently capitalized with approximately \$27 million of preferred stock among 18 venture groups. One venture group controls approximately 20% of the company. Bank working capital financing has increased each year, indicating strong primary lender commitment.
- 5. Security** – The bank has senior liens on all company assets that include cash, receivables, and inventory. Land and building are leased from Gialamas. However, M&I Bank has agreed to

release two (2) of the Hi-Art units from its security interest so that the City might fully secure its \$700,000 loan. The cost of these units is approximately \$2.6 million. Their value in terms of open market sales prices ranges between \$2.5 and \$3.0 million each or \$5-6 million of total market value.

Recommendation:

Staff recommends that the CDA recommend to the City of Madison that it make an end-loan in the amount of \$700,000 to TomoTherapy, Inc. upon completion of the construction and installation of two (2) demonstration Hi-Art units. Said loan to be provided at 4% fixed interest, 5-year note and a ten (10)-year amortization with balloon payment made at maturity. Said loan to be secured by first lien upon two (2) Hi-Art units to be installed at TomoTherapy's current facility at 1240 Deming Way.

The CDA shall also require the corporate guaranty of TomoTherapy, Inc. and evidence of a lease between Gialamas and TomoTherapy of not less than 10 years. The loan must comply with all City ordinances concerning living & prevailing wage and non-discrimination. The loan is contingent upon M&I Bank approval of a release of two (2) Hi-Art units from M&I Bank's security interest on inventory.

The MCRF loan will be made in conjunction with a \$300,000 loan at similar terms and rates by Madison Development Corporation (MDC). MDC funds would subordinate to CDA's first lien security interest.

The loan would require two exceptions to the CDA's policy:

- 1) That the loan is made outside of the MCRF geographical boundary.
- 2) That the loan exceeds the \$250,000 maximum.